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Message Text

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PAGE 01 STATE 144780

70
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EUR - JGLOWENSTEIN
S/S-S - R. BRAZEAL
S/S -O: K. KURZE
DESIRED DISTRIBUTION
ATTENTION:S/S TEAM - FOR TYPING AND INSERTION INTO SECRETARY'S ROME BRIEFING BOOK
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O R 0401Z JUL 74 ZFF4
FM SECSTATE WASHDC
TO AMEMBASSY BRUSSELS IMMEDIATE
INFO AMEMBASSY ROME

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EXDIS, TOSEC 302

E.O. 11652: GDS
TAGS: OVIP IT (KISSINGER, HENRY A.)
SUBJECT: SECRETARY'S VISIT TO ROME

1. CONTINGENCY ISSUES AND TALKING POINTS -- DOUBLE TAXATION CONVENTION

BEGIN TEXT

ANALYSIS/BACKGROUND

THE USG AND THE GOI ARE CURRENTLY DISCUSSING THE APPLICA-
BILITY OF THE 1955 CONVENTION BETWEEN THE USA AND THE
ITALIAN REPUBLIC FOR THE AVOIDANCE OF DOUBLE TAXATION AND
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PAGE 02 STATE 144780

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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THE PREVENTION OF FISCAL EVASION OF INCOME TAXES. THE ITALIANS ASSERT THAT THE INTRODUCTION OF NEW GOI TAX REFORM MEASURES IN 1974 MADE THE CONVENTION INOPERABLE FOR ITALY, BUT THAT IT STILL APPLIES TO THE UNITED STATES. WE MAINTAIN THAT RECIPROCITY IS NECESSARY. BOTH GOVERNMENTS AGREE NEGOTIATIONS FOR A NEW CONVENTION ARE NECESSARY. IN THE MEANTIME TECHNICAL DISCUSSIONS ARE TAKING PLACE TO MAINTAIN AT LEAST A LIMITED CONVENTIONAL ARRANGEMENT. ON JUNE 28 THE MINISTRY OF FOREIGN AFFAIRS SENT THE US EMBASSY A NOTE VERBALE PROPOSING AN INTERIM ARRANGEMENT. WE HAVE NOT YET RESPONDED AS THE USG POSITION IS STILL BEING FORMULATED IN WASHINGTON. WE HAVE, HOWEVER, NOTIFIED THE GOI OF OUR

INTENTION TO TERMINATE THE CONVENTION AS OF JANUARY 1, 1975, IN ORDER TO PROTECT US RIGHTS IF THE ISSUE IS NOT RESOLVED BEFORE THAT DATE.

ITALIAN POSITION

THE GOI IS INTERESTED IN NEGOTIATING A NEW DOUBLE TAXATION CONVENTION WHILE AT THE SAME TIME INSURING THAT THERE IS NO LAPSE IN THE APPLICATION OF THE EXISTING CONVENTION. THE ITALIANS HAVE PROPOSED THAT ANY INTERIM ARRANGEMENT BE EFFECTIVE RETROACTIVELY TO JANUARY 1974 AND HAVE PROPOSED AN EXCHANGE OF NOTES WHICH MAY HAVE TO BE RATIFIED BY PARLIAMENT. THIS ACTION WOULD INSURE THAT BOTH PERSONAL AND CORPORATE INCOME TAXES WOULD BE LOWERED UNDER THE CONVENTION. THE GOI ASSERTS THE CONVENTION SHOULD NOT COVER THE NEW ITALIAN TAX USED TO FINANCE LOCALITIES.
US POSITION

THE USG IS CONCERNED ABOUT THE RECIPROCITY OF ANY INTERIM ARRANGEMENTS BOTH ON GROUNDS OF EQUITY AND IN ORDER TO DEFEND THE USG POSITION WITH THE US SENATE WHENEVER A NEW TREATY IS SUBMITTED FOR RATIFICATION. THE US TREASURY MAINTAINS THAT THE EXCLUSION OF THE NEW ITALIAN TAX WOULD REDUCE THE TAX COVERAGE OF THE CONVENTION ON THE ITALIAN SIDE SO THAT ITS APPLICATION WOULD NOT BE RECIPROCAL. ALTHOUGH WE HAVE NOTIFIED THE ITALIANS OF OUR INTENTION TO TERMINATE THE CONVENTION AS OF
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JANUARY 1, 1975, WE HAVE MADE IT CLEAR THAT DISCUSSIONS ON THE SUBJECT WILL CONTINUE.

YOUR TALKING POINTS

IF THE ITALIANS BRING IT UP, YOU MIGHT WISH TO SAY THAT:

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-- BOTH THE USG AND GOI ARE IN AGREEMENT THAT EVERY EFFORT SHOULD BE MADE TO MAINTAIN THE APPLICATION OF THE TREATY ON AN INTERIM BASIS SO THAT DOUBLE TAXATION AND FISCAL EVASION CAN BE PREVENTED.

--THE USG IS PRESENTLY STUDYING THE RECENT ITALIAN NOTE AND WILL RESPOND TO THE GOI AS SOON AS POSSIBLE.

-- THE US NOTICE TO TERMINATE THE CONVENTION ON JANUARY 1, 1975, WILL BE WITHDRAWN IF THE ISSUE IS RESOLVED. END TEXT.
SISCO

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